

## **FISCAL NOTE**

### **SB 2671 – HB 2895**

January 23, 2008

**SUMMARY OF BILL:** Changes the method for computing coal severance tax from 20-cents per ton to 4.5% of the gross value. Creates the Coal Severance Fund for the purpose of disbursing and accounting for coal severance tax revenue. Creates a state sales tax exemption for all sales, and services related to installation, of qualified solar water heating equipment, qualified photovoltaic equipment, qualified wind generators, and qualified backup systems. Requires Coal Severance Fund monies first be allocated to offset the loss of state sales tax revenue resulting from the sales tax exemption proposed, with the remainder being allocated to the State Treasurer for the purpose of providing funding for public policies for the assistance of counties affected by coal mining, the reclamation of land and waters damaged by prior mining, and programs for energy conservation and solar energy generation.

#### **ESTIMATED FISCAL IMPACT:**

**Increase State Revenue – Net Impact –**

**\$167,000 / Department of Revenue**

**\$3,545,000 / Tennessee Surface Mine Reclamation Fund**

**Foregone State Revenue – Exceeds \$140,000**

**Increase State Expenditures - \$32,000 – One-Time**

**Increase Local Gov't. Revenue – Net Impact - \$3,001,000**

Severance Tax Assumptions:

- Coal severance tax collections were \$560,481 in FY06-07.
- Currently, local governments are apportioned 97% of coal severance tax collections; the state retains 3% for administrative costs.
- Local governments were apportioned approximately \$543,667 in FY06-07 ( $\$560,481 \times 97\% = \$543,667$ ).
- The state retained approximately \$16,814 in FY06-07 ( $\$560,481 \times 3\% = \$16,814$ ).
- Quantity of coal severed in Tennessee in FY06-07 is estimated to be 2,802,405 tons ( $\$560,481 \div \$0.20$  current per ton tax = 2,802,405 tons).

- The Energy Information Administration of the U.S. Department of Energy has estimated the price of coal in the Central Appalachia to be approximately \$58.30 per ton (as of January 18, 2008).
- Gross value of coal severed in Tennessee in FY06-07 is estimated to be worth \$163,380,000 (2,802,405 tons x \$58.30 per ton = \$163,380,212) in FY08-09.
- Total coal severance tax collections are estimated to be \$7,352,000 in FY08-09 (\$163,380,000 gross value x 4.5% = \$7,352,100).
- The Department of Revenue will retain 2.5% (or approximately \$184,000) of the total for administrative costs.
- The net increase to the Department of Revenue is estimated to be \$167,000 (\$184,000 - \$16,814 from FY06-07 = \$167,186) per year.
- The remaining coal severance tax collections (after administrative costs) are estimated to be approximately \$7,168,000 (\$7,352,000 - \$184,000 = \$7,168,000).
- \$78,000 of \$7,168,000 shall be used to offset the loss of sales tax revenue associated with the state sales tax exemption proposed in Section 5 of this bill.
- Net remaining coal severance tax collections are estimated to be \$7,090,000 (\$7,168,000 - \$78,000 = \$7,090,000) for FY08-09.
- 50% (or \$3,545,000) will be allocated to local governments.
- The net increase to local government revenue is estimated to be \$3,001,000 (\$3,545,000 increase - \$543,667 from FY06-07 = \$3,001,333) per year
- 50% (the other \$3,545,000) will be allocated to the Tennessee Surface Mine Reclamation Fund.
- The increase to one-time state expenditures for computer and software enhancements is estimated to be \$32,000.

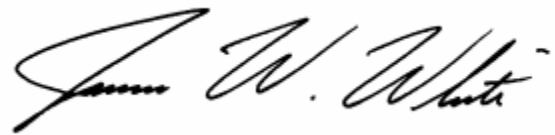
#### Sales Tax Exemption Assumptions:

- Purchasers of the identified equipment must be enrolled in the Tennessee Valley Authority Generation Partners (TVA-GP) program in order to be eligible for the state sales tax exemption proposed in this legislation.
- From information provided by TVA in 2006, taxable sales of qualified equipment for which purchasers were enrolled in the TVA-GP program, were estimated to be less than \$1.0 million per year.
- 5% annual growth of sales since 2006.
- Gross sales (adjusted for growth) are estimated to be less than \$1,103,000 for FY08-09.
- The exclusion of solar water heating equipment used for the heating or pre-heating of swimming pools is assumed to also apply to hot tubs, spas, etc.
- The current state sales tax rate is 7.00%.

- The decrease of state sales tax revenue is estimated to be less than \$78,000 ( $\$1,103,000 \text{ taxable sales} \times 7.00\% \text{ state sales tax rate} = \$77,210$ ) per year.
- This bill does not exempt qualified equipment purchases from local option sales tax. Therefore, local option sales tax revenue shall remain unchanged.
- Demand for photovoltaic (PV) and wind generator systems, for which purchasers would be enrolled in the TVA-GP program, is estimated to increase significantly if this bill passes.
- Future sales of PV equipment and wind generators are estimated to exceed \$2.0 million per year.
- Foregone state revenue is estimated to exceed \$140,000 ( $\$2.0 \text{ million taxable sales} \times 7.00\% \text{ state sales tax rate} = \$140,000$ ) per year.

### **CERTIFICATION:**

This is to duly certify that the information contained herein is true and correct to the best of my knowledge.

A handwritten signature in black ink, appearing to read "James W. White". The signature is fluid and cursive, with the first name "James" written in a larger, more prominent script than the last name "White".

James W. White, Executive Director

/rnc